

SUBEO LIMITED

Foley

AR27



**ANNUAL REPORT
1966**

SUBEO LIMITED

PROGRESS SINCE INCORPORATION January 10, 1966

Directors

DENIS JAMES HAPPY
 GEORGE BARRINGTON REDFEARN
 ERNEST DAVID BLACK
 ROBERT ALBERT GEISLER
 IRMA LEE BONNER SWALES
 JOHN DRUMMOND LIPPENS
 CARL H. ROBERTS

Officers

DENIS JAMES HAPPY
President
 GEORGE BARRINGTON REDFEARN
Vice-President & Secretary-Treasurer

Head Office

Suite 907
 100 Adelaide St. W.
 Toronto 1, Ontario
 Canada

Auditors

GLENDINNING, JARRETT,
 GOULD & CO.
 Toronto

Solicitors

DAY, WILSON, CAMPBELL & MARTIN
 Toronto

Registrar

GUARANTY TRUST CO. OF CANADA
 Toronto, Montreal

Stock Listed

CANADIAN STOCK EXCHANGE
 Montreal

Consulting Geologists

METALS, PETROLEUM & HYDRAULIC
 RESOURCES CONSULTING LIMITED
 Toronto

C. H. ROBERTS
 Coudersport, Pennsylvania

	to Dec. 31, 1966	to April 30, 1967
Net natural gas reserves — Proven	1.5 billion cubic feet	3.2 billion cubic feet*
Footage drilled	16,310 feet	19,300 feet
Gross wells	12.0 wells	16.0 wells
Net wells	9.75 wells	12.25 wells
Productive gas wells — Gross	6.0 wells	10.0 wells
Productive gas wells — Net	6.0 wells**	8.5 wells**
Landholdings — Gross	19,248 acres	18,248 acres
— Net	14,200 acres	15,000 acres
Company-owned gas pipelines	25,240 feet (2" o.d.)	25,240 feet (2" o.d.)
Expenditures to date	\$155,974.00	\$170,000.00 (unaudited)

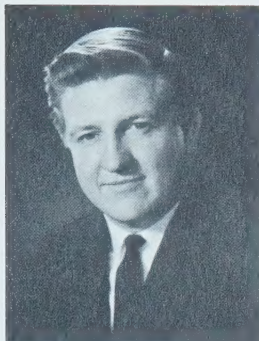
CAPITALIZATION

	Authorized	Issued
Class "A" preference stock without par value	200,000 shares	100,000 shares
Common stock, without par value	2,000,000 shares	1,000,007 shares
Registered Shareholders	300	330

*Proven reserves have been estimated by management.

**of which six net gas wells are under sales contract to the Union Gas Company of Canada Ltd. at 45 cents per 1,000 cubic feet.

THE PRESIDENT'S REPORT AND REVIEW



To the Shareholders:

Your Company is actively engaged in Canada's crude oil and natural gas industry. By design, the Company's activities are concentrated in Southwestern Ontario, the birth place of the petroleum industry.

It is in this region that a young company, such as Subeo, can follow a policy of conserving its share capital by investing in low-risk exploration and development programs. Projects of this nature have the potential for returning the owners' investment rapidly while also generating surplus capital to finance the greater risks involved in searching out more prolific reserves.

The following gains attest to the success of this policy since Subeo was incorporated on the 10th day of January, 1966:

The Company raised \$175,007 through the sale of shares.

A selectively chosen landspread was acquired in several areas throughout Southwestern Ontario totalling some 19,000 acres at year end 1966.

The Company drilled 12 wells during 1966 of which six were successfully completed as wholly-owned natural gas producers. (So far in 1967, three wells have been completed as gas wells and one gas well has been purchased.)

Subeo discovered a producing natural gas field in Norfolk County (Wilsonville, Unit No. 1) during 1966. During the year the Company brought this field under partial development, built and tested an associated pipeline to transport its gas and contracted the output for sale — at 45 cents per thousand cubic feet — to the Union Gas Company.

Early in 1967, the Company made another significant natural gas discovery in Dereham Township, Oxford County, (the Verschoyle field). The Company, so far, has three wells capable of production and preliminary indications support the possibility of major reserves.

On December 14, 1966, your Company's common shares were listed for trading on the Canadian Stock Exchange. Subeo closed out its fiscal year on December 31, 1966 with a working capital position of \$19,033, no debt, two promising development programs for the current year and the commencing of production and revenue.

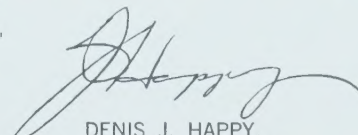
OUTLOOK FOR 1967

The Company plans to drill additional development wells, the results of which are expected to bring about a three-fold increase in gas sales from the currently estimated annual rate of 90,000,000 cubic feet.

Exploration to evaluate the Cambrian formation underlying the Verschoyle area for deep oil and gas potential is currently underway with the initial cost of the program being borne by a large exploration organization. The Company plans to expand exploration activities into several new areas by attracting experienced partners who are willing to bear the initial risk. Subeo will therefore conserve its resources for development programs and maintain reversionary interests in any new discoveries that may result.

Finally, Subeo is forming and will operate a Uranium Syndicate, known as Radex. The purpose of this is to assure the company a future position in the ever expanding exploration for new energy sources.

On behalf of the Board,



DENIS J. HAPPY,
President.

May 31, 1967.

SUBEO LIMITED

(Incorporated under the laws of the Province of Ontario)

AUDITORS' REPORT

To the Shareholders,
Subeo Limited.

We have examined the balance sheet of Subeo Limited as at December 31, 1966, and the related statements of deferred exploration and administrative expense and source and use of funds for the period from incorporation January 10, 1966 to December 31, 1966. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet, together with the notes related thereto, and statements of deferred exploration and administrative expense and source and use of funds present fairly the financial position of the Company as at December 31, 1966 and the results of its operations for the period from incorporation to that date in accordance with generally accepted accounting principles.

GLENDINNING, JARRETT,
GOULD & CO.,
Chartered Accountants,

Toronto, Ontario,
May 11, 1967.

BALANCE SHEET — AS AT DECEMBER 31, 1966

ASSETS

CURRENT

Short-term deposits	\$ 25,000	
Accounts receivable	9,662	
Prepaid expenses	168	34,830

EQUIPMENT

Pipeline		15,801
--------------------	--	--------

DEFERRED

Exploration expense	\$117,039	
Administrative expense	16,832	
Organization expenses	1,390	135,261

OTHER ASSETS

Deposit with Province of Ontario		
\$5,000 5¾ % Province of Ontario bonds due March 1, 1986		
— at cost		4,912
		<u>\$190,804</u>

LIABILITIES

CURRENT

Bank indebtedness	\$ 2,821	
Accounts payable and accrued charges	12,976	15,797

SHAREHOLDERS' EQUITY

CAPITAL STOCK

Authorized		
200,000 Class 'A' preference shares without par value		
2,000,000 Common shares without par value		
Issued for cash		
100,000 Class 'A' preference shares (Note 2)	\$ 10,000	
1,000,007 Common shares	165,007	175,007
		<u>\$190,804</u>

Approved on behalf of the Board

D. J. HAPPY, Director.
G. B. REDFERN, Director.

STATEMENT OF DEFERRED EXPLORATION AND ADMINISTRATIVE EXPENSE

For the Period from Incorporation January 10, 1966 to December 31, 1966

EXPLORATION

Drilling	\$ 84,138	
Fracturing	20,460	
Consulting fees	3,519	
Lease rental expense	5,257	
Lease acquisition costs	1,485	
Field operating costs	1,480	
Miscellaneous	700	117,039

ADMINISTRATIVE

Salaries	\$ 1,500	
Printing and stationery	1,703	
Travel expense	988	
Transfer agent's fees	1,118	
Legal fees	8,234	
Accounting, secretarial and audit fees	3,150	
Directors' fees	300	
Listing — Canadian Stock Exchange	1,000	
Miscellaneous	467	
	\$ 18,460	
Less: Interest earned	1,628	16,832

STATEMENT OF SOURCE AND USE OF FUNDS

For the Period from Incorporation January 10, 1966 to December 31, 1966

SOURCE OF FUNDS

Sale of treasury shares		
Preference	\$ 10,000	
Common	165,007	175,007

USE OF FUNDS

Exploration expense	\$117,039	
Administration expense	16,832	
Construction of Pipeline	15,801	
Bonds purchased	4,912	
Organization expense	1,390	155,974

WORKING CAPITAL — December 31, 1966

\$ 19,033

NOTES TO

FINANCIAL STATEMENTS

1. Class 'A' preference shares may be converted at any time during a period not exceeding five years from the date of incorporation of the Company by the holders thereof into fully paid common shares of the Company on the basis of one common share for each Class 'A' preference share.
2. The 100,000 Class 'A' preference shares are being held in escrow, subject to release pro rata on the written consent of the Ontario Securities Commission and the Board of Directors of the Company and subject to transfer, hypothecation and/or alienation within the escrow on the written consent of the Ontario Securities Commission. Provided, however, upon the surrender of said shares for conversion into common shares, they may automatically be released from escrow without the consent of the Ontario Securities Commission.

SUBEO LIMITED REVIEW

Verschoyle Pool

(16 miles S.E. of the City of London)

GUELPH NIAGARAN REEF

Subeo holds a 50% interest in some 7,000 acres surrounding the Verschoyle pool, where Subeo et al now have three completed gas wells. Two wells are currently being drilled approximately a mile south of C.H. No. 1 to the east and to the west. Either of these wells if successful will significantly extend the size of the field.

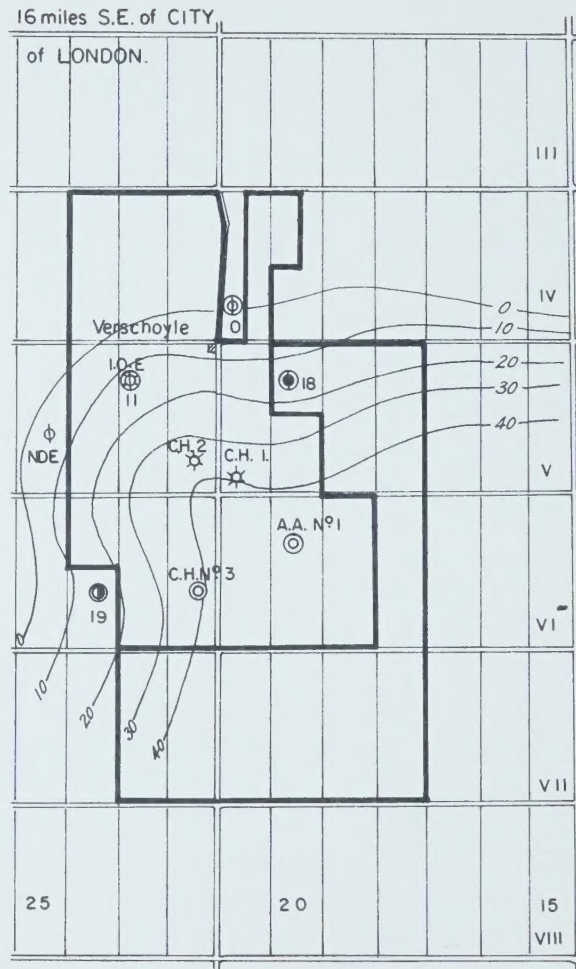
One of these wells is a deep test to evaluate the oil potential of the Cambrian formation.

The company plans to put the field into production by the fall of 1967.

Recoverable gas reserves are estimated at 1.875 million cubic feet per acre. Pay out per well is estimated at 24 months. Annual gas production from this field is estimated at 300 million cubic feet. The wells are expected to have a ten year life. Because of the strategic location of the discovery, the field may serve as a gas storage area after depletion, and thereby offers the company an additional source of revenue.



Visitor's reaction to open flow test S.S.5 Wilsonville Pool, Oct. 1966.



VERSCHOYLE WEST POOL

LEGEND: Cambrian Test Silurian Gas Well
 Farmout Block Proposed Drilling Location

Wilsonville Pool

(12 miles S.W. of the City of Brantford)

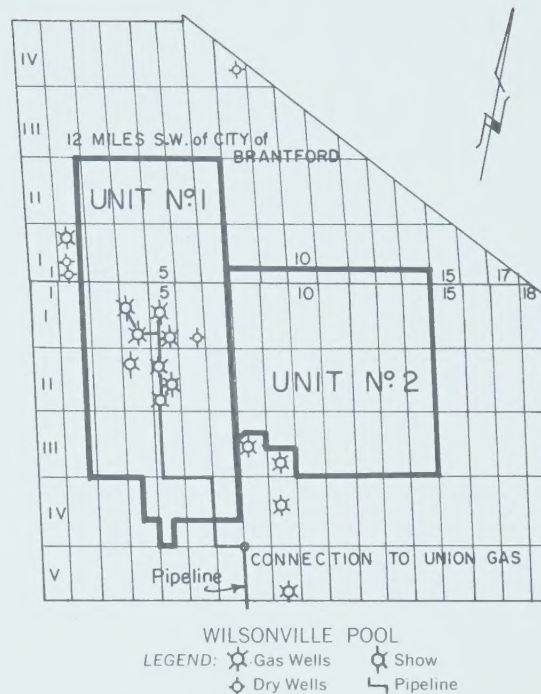
CLINTON CATARACT RESERVOIR

Subeco holds a 100% working interest in some twenty square miles surrounding the shallow natural gas discovery made by your company in July, 1966. Unit No. 1 is now served by a company owned pipeline which traverses the centre of the unit, and is capable of handling all future development wells to be drilled in the Unit. Development drilling is expected to increase production of this Unit from the current rate of 135 mcf/d* to 600 mcf/d by year end. Recoverable gas reserves are estimated to be 1 million cubic feet per acre. Pay out per well drilled, including a portion of the cost of the pipeline and dry holes is estimated at three years. The estimated average life of these wells is 15 years.

Unit No. 2, still unexplored, is expected to be test drilled during the current year.

The prospects for testing the Wilsonville area for deep oil are being studied.

*Thousand cubic feet per day.



The Company's achievements in 1966 reflect the efforts of a working Board of Directors and a dedicated group of associates. These achievements were made possible by Shareholders whose continued interest, and willingness to make a risk capital investment shared in the creation of a new Canadian exploration company.



GAS AND OIL FIELDS IN SOUTHWESTERN ONTARIO

X ● GAS AND OIL DISCOVERIES IN 1966-67